

Northwestern Michigan College

Financial Report with Additional Information

June 30, 2008

Northwestern Michigan College

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Northwestern Michigan College

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Independent Auditor's Report

To the Board of Trustees
Northwestern Michigan College

We have audited the accompanying basic financial statements of Northwestern Michigan College and its discretely presented component unit as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. In addition, the audit of the basic financial statements was audited in accordance with the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Michigan College and its discretely presented component unit as of June 30, 2008 and 2007 and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2008 on our consideration of Northwestern Michigan College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis presented on pages 2 through 15 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Plante & Moran, PLLC".

October 13, 2008

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

The discussion and analysis of Northwestern Michigan College's financial statements provide an overview of the College's financial activities for the year ended June 30, 2008. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College administration.

Using this Report

The College's financial report includes three financial statements: the balance sheet, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*.

This annual financial report includes the report of independent auditors, the management's discussion and analysis, the basic financial statements, notes to the financial statements, and additional information.

Financial Highlights

The College's financial position for fiscal year 2008 remained stable compared to fiscal year 2007. There was an increase in tuition and fees of approximately \$167,000 based on a 3.45 percent average increase in tuition and a 1.65 percent increase in contact hours. Operating property taxes increased approximately 6.2 percent and the bond millage collection increase was 2.9 percent due to property tax values. State appropriations increased by \$2.04 million or 28.2 percent.

The Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets

The balance sheet and the statement of revenue, expenses, and changes in net assets report information on the College's net assets and changes in them. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions.

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

Total net assets at June 30, 2008, 2007, and 2006 are \$53.3 million, \$53.1 million, and \$52.2 million, respectively. The College's balance sheet at June 30 is summarized as follows:

Condensed Balance Sheet as of June 30 (in thousands)			
	2008	2007	2006
Current assets	\$ 9,800	\$ 10,597	\$ 7,741
Noncurrent assets	80,433	81,102	85,281
Total assets	\$ 90,233	\$ 91,699	\$ 93,022
Current liabilities	\$ 6,809	\$ 6,816	\$ 6,611
Noncurrent liabilities	30,117	31,818	34,197
Total liabilities	36,926	38,634	40,808
Net assets:			
Invested in capital assets	35,152	37,248	38,271
Restricted - Expendable	-	6	14
Restricted - Debt service	6,356	4,948	3,693
Unrestricted	11,799	10,863	10,236
Total net assets	53,307	53,065	52,214
Total liabilities and net assets	\$ 90,233	\$ 91,699	\$ 93,022

Balance Sheet

The primary changes in the assets and liabilities of the College between 2008 and 2007 are as follows:

- Decreases in current assets include a transfer of investments in short-term securities to long-term investments.
- Capital assets, a component of noncurrent assets, decreased 2.5 million or 3.4 percent due to depreciation with no major capital additions.
- Current liabilities remain consistent with last year
- Noncurrent liabilities decreased based on the bond payment schedule which was offset by a slight increase in vacation leave accrual.

The primary changes in the assets and liabilities of the College between 2007 and 2006 are as follows:

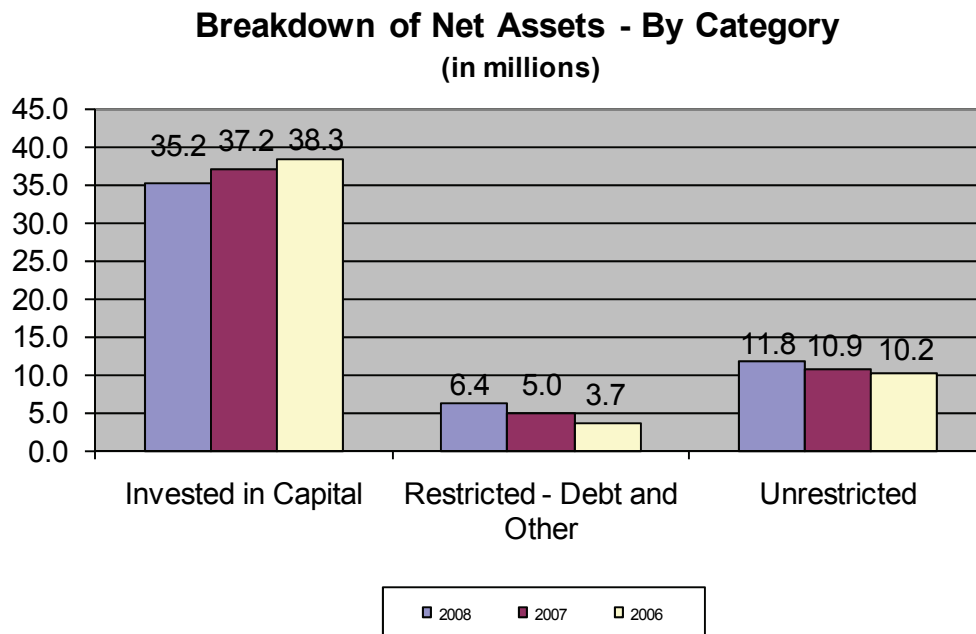
- Increases in current assets include investments in short-term securities, prepaid expenses related to aviation lease agreement, and MPERS retirement payments to the State of Michigan
- Capital assets, a component of noncurrent assets, decreased \$1.1 million or 1.5 percent due to depreciation with no major capital additions.
- Current liabilities increased primarily due to increase in interest according to the existing payment schedules.

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

- Noncurrent liabilities decreased based on the bond payment schedule and the early retirement of an aviation loan with no additional debt issued during the year.

The following chart provides a graphic breakdown of net assets by category for the fiscal years ended June 30, 2008, 2007, and 2006:



Net Assets

Fiscal year 2008 net assets increased \$242,000 or 0.5 percent. Depreciation of \$4.0 million was offset by minor investments in capital improvements and transfers into the Plant Fund. Transfers into the Plant Fund were funded by operating and non-operating revenue in excess of expenses in both the General Fund and Auxiliary Funds.

Fiscal year 2007 net assets increased \$851,000 or 1.6 percent. Depreciation of \$3.9 million was offset by minor investments in capital improvements and transfers into the Plant Fund. Transfers into the Plant Fund were funded by operating and non-operating revenue in excess of expenses in both the General Fund and Auxiliary Funds.

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

Statement of Revenue, Expenses, and Changes in Net Assets

Following is a comparison of the major components of operating results of the College for the years ended June 30, 2008, 2007, and 2006:

Operating Results for the Year Ended June 30 (in thousands)			
	2008	2007	2006
Total operating revenue	\$ 19,931	\$ 21,006	\$ 19,621
Total operating expenses	45,244	43,160	42,018
Net operating loss	(25,313)	(22,154)	(22,397)
Net nonoperating revenue	25,547	22,327	22,125
Income (loss) before net other revenue	234	173	(272)
Net other revenue	8	678	368
Increase in Net Assets	242	851	96
Net Assets - Beginning of year	53,065	52,214	52,118
Net Assets - End of year	\$ 53,307	\$ 53,065	\$ 52,214

Total Revenue

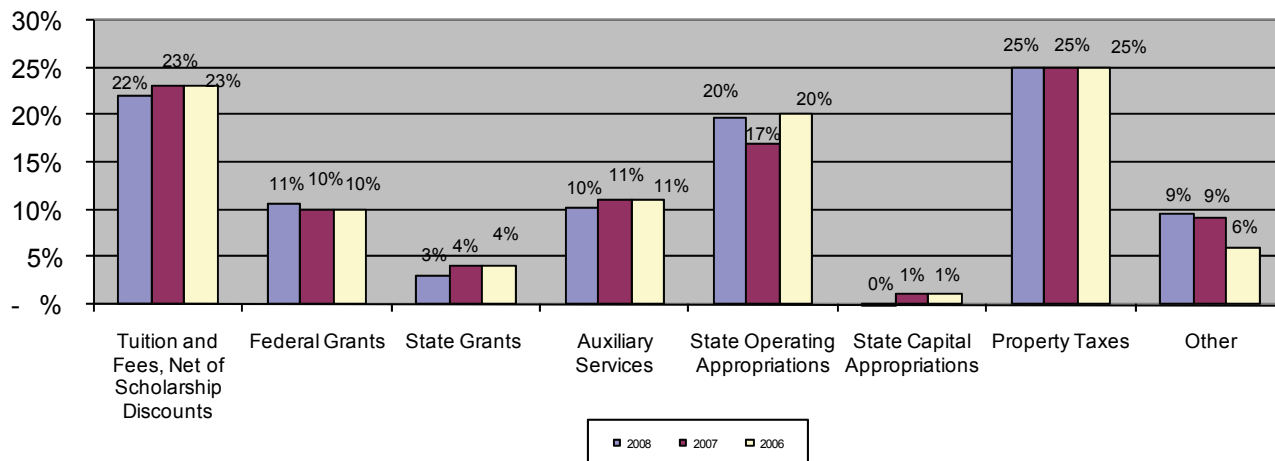
The major changes in revenue for fiscal year 2008 resulted from an increase in tuition and fees, State appropriations and property taxes. State grants and student housing accounted for major decreases in revenue in 2008. The major changes in revenue for fiscal year 2007 resulted from a decrease in state appropriations and increases in tuition, student housing, and property taxes. This impacted the relative percentages for all revenue.

Northwestern Michigan College

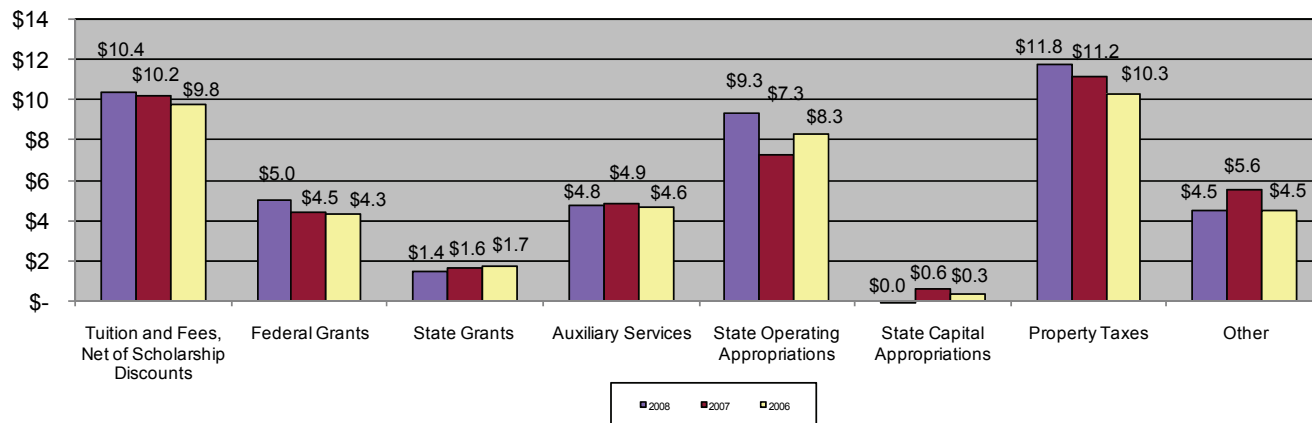
Management's Discussion and Analysis - Unaudited

The following are graphic illustrations of total revenue by source by percentage and dollars for the years ended June 30, 2008, 2007, and 2006:

Revenue Source as a Percent of Total Revenue



Revenue Source (in millions)



Northwestern Michigan College

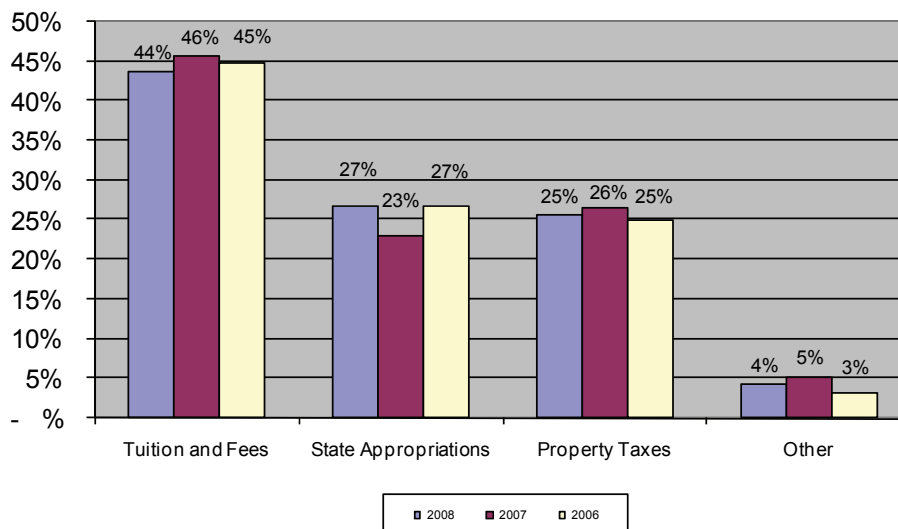
Management's Discussion and Analysis - Unaudited

General Fund Revenue

Internally, the College accounts for its financial statements using fund accounting, which is then reorganized into operating and non-operating components for the audited financial statements. The College accounts for its primary programs and operations in its General Fund. The General Fund is financed primarily through four sources of revenue - tuition and fees, state appropriations, property taxes, and other. For this report, these sources of revenue are classified as either operating or non-operating.

The following are graphic illustrations of total General Fund Revenue by source by percentage and dollars for the years ended June 30, 2008, 2007, and 2006:

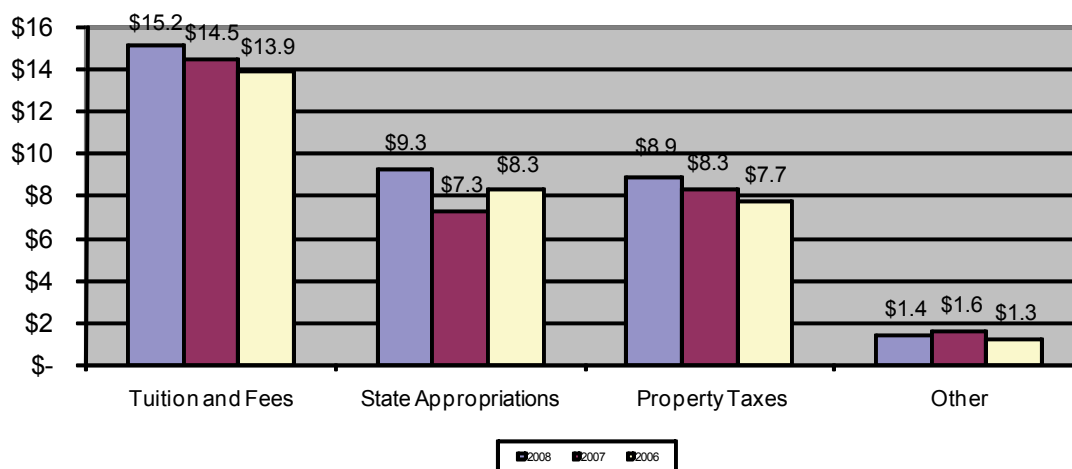
General Fund Revenue - By Source



Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

General Fund Revenue Source (in millions)



Operating Revenue

For the College as a whole, operating revenue includes all transactions that result in the sales and/or receipts from goods and services such as tuition, fees, housing, and other auxiliary operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue for the fiscal year 2008 was as follows:

- Tuition and fee revenue increased approximately \$167,000 based on increases of an average 3.45 percent in tuition and fees and an average increase of 1.65 percent in contact hours.
- Federal grants decreased \$177,000 related primarily to the completion of the Renewable Energy grants.
- State grants decreased \$184,000 related primarily to the completion of the Consortium EDJT grant and a reduction of eligible students for the Michigan Merit Award.
- Private Funding increased due to grants for Water Studies – Fate of the Dams study (funding included Great Lakes Fishery Trust, County & City support).
- Auxiliary revenue decreased related primarily to a decrease in occupancy rate of student housing.
- Other sources decreased in revenue related to a decrease in the sale of capital assets (related to the sale of planes from the aviation program).

Operating revenue for the fiscal year 2007 was as follows:

- Tuition and fee revenue increased approximately \$460,000 based on increases of 5 percent in tuition and fees and 1 percent in contact hours.
- Federal grants increased \$69,000 related primarily to the Renewable Energy projects.
- State grants decreased \$81,000 primarily related to a reduction of student financial aid.
- Private Funding decreased due to the completion of the Harbor Project.

Northwestern Michigan College

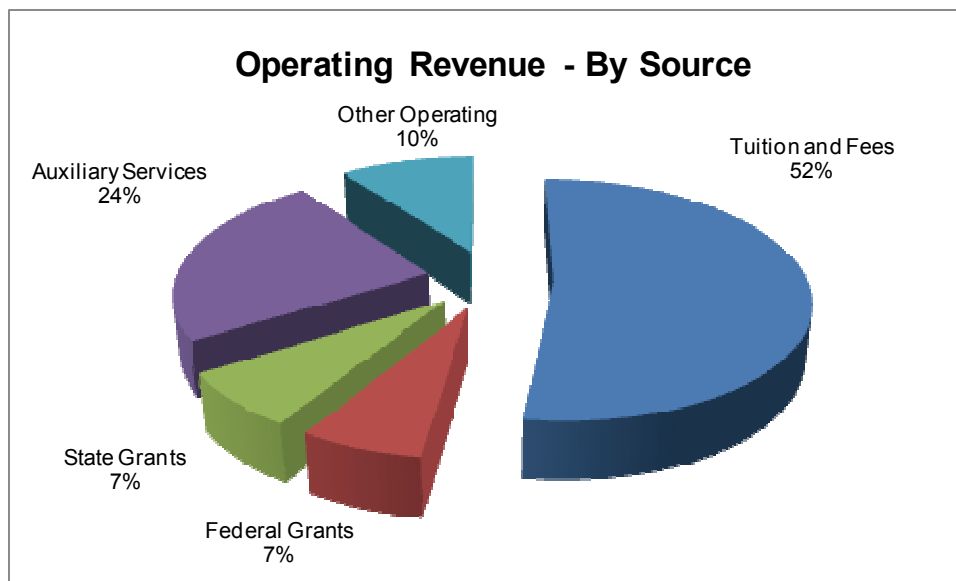
Management's Discussion and Analysis - Unaudited

- Auxiliary revenue increased primarily related to the occupancy rate in student housing.
- Other sources increased in revenue related to the Hagerty Center and the sale of capital assets.

The following chart shows the amounts of these sources of operating revenues for the years ended June 30, 2008, 2007, and 2006:

Total Operating Revenue - By Source as of June 30 (in thousands)			
	2008	2007	2006
Tuition and fees	\$ 10,404	\$ 10,237	\$ 9,776
Federal grants	1,300	1,476	1,407
State grants	1,449	1,634	1,716
Auxiliary services	4,767	4,852	4,636
Other operating	2,011	2,807	2,086
Total operating revenue - By source	<u>\$ 19,931</u>	<u>\$ 21,006</u>	<u>\$ 19,621</u>

The following is a graphic illustration of operating revenue by source for the year ended June 30, 2008:



Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

Nonoperating Revenue

Non-operating revenue is all revenue sources that are primarily non-exchange in nature. They consist primarily of state appropriations, Federal Pell Grant funding, property taxes, gifts, and investment income.

Non-operating revenue changes included the following factors for fiscal year 2008:

- State appropriation increased \$2.04 million or 28.2 percent. The increase includes the 2007 delayed payment of \$768,000 from the 2007 fiscal year.
- Federal Pell grant increased \$712,000 or 23.9 percent, due to an increase in qualified students with financial need.
- Property taxes increased \$597,000 or 5.3 percent. The operating property tax increased \$515,000 or 6.2 percent and the bond millage property tax increased \$82,000 or 2.9 percent. Overall change resulted from an increase in local property tax values.
- Interest income decreased \$195,000 due to the decline in interest rates and market fluctuation.
- Northwestern Michigan College Foundation support includes \$974,000 for scholarships with the remaining \$992,000 supporting Dennon Museum, Osterlin Library, water studies and other instructional programs.

Non-operating revenue changes included the following factors for fiscal year 2007:

- State appropriation decreased by \$1.05 million or 12.7 percent. The decrease includes the 2007 delayed payment of \$768,000 into the 2008 fiscal year and a credit received in 2007 that reduced retirement payments instead of being shown as State appropriation revenue.
- Federal Pell grant increased \$36,000 or 1.2 percent.
- Property taxes increased \$845,000 or 8 percent. The operating property tax increased \$601,000 or 7.8 percent and the bond millage property tax increased \$244,000 or 9.5 percent
- Interest income increased \$320,000 due to higher interest rates
- Northwestern Michigan College Foundation support includes \$750,000 for scholarships with the remaining \$1.2 million supporting programs such as water studies, Dennon Museum, Osterlin Library and other instructional programs.

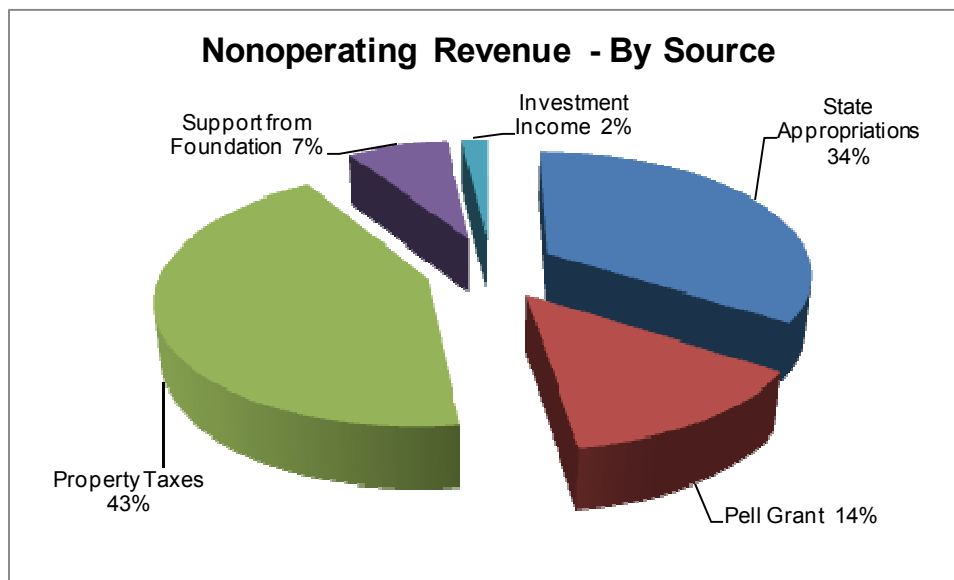
Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

The following chart shows the amounts of these sources of nonoperating revenues for the years ended June 30, 2008, 2007, and 2006:

Nonoperating Revenue - By Source as of June 30 (in thousands)			
	2008	2007	2006
State appropriations	\$ 9,301	\$ 7,258	\$ 8,315
Pell grant	3,686	2,974	2,938
Property taxes	11,750	11,154	10,309
Support from Foundation	1,966	1,965	2,020
Investment income	482	677	357
Total nonoperating revenue - By source	<u>\$ 27,185</u>	<u>\$24,028</u>	<u>\$23,939</u>

The following is a graphic illustration of non-operating revenue by source for the year ended June 30, 2008:



Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. They include salaries, benefits, utilities, supplies, services, and depreciation and are then categorized by function. Overall, total operating expenses increased \$2.1 million (4.8 percent) and \$1.1 million (2.7 percent) for fiscal years 2008 and 2007, respectively. For the purpose of the audit, operating expenses are presented according to the State of Michigan's Activities Classification Structure (ACS).

Northwestern Michigan College

Management's Discussion and Analysis - Unaudited

Highlights of the major changes between fiscal year 2008 and fiscal year 2007 by category are as follows:

- Salaries, wages and benefits increased by \$1.8 million or 7.3 percent.
- Information technology costs decreased due to a change in the replacement cycle of computers and a server upgrades in 2007.

Highlights of the major changes between fiscal year 2007 and fiscal year 2006 by category are as follows:

- Salaries, wages and benefits increased across all categories by \$818,000 or 3 percent. .
- Information technology costs increased due to the purchase of equipment to accommodate the change in purchasing cycle philosophy
- Public service increased primarily due to the increase costs in operating the Hagerty Center and the focus on the water studies grants.
- Student Services decreased predominantly due to expenditures related to cost of goods sold.

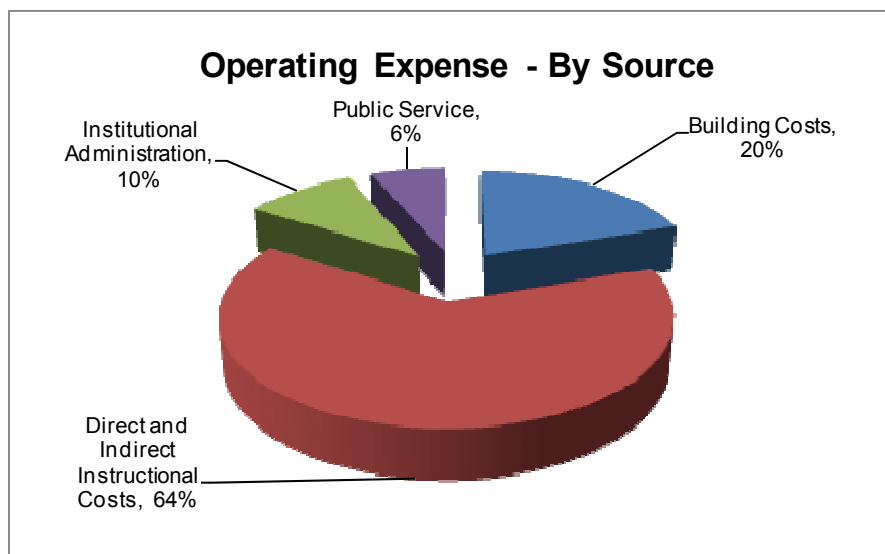
The following chart shows the amounts of these sources of operating expenses for the years ended June 30, 2008, 2007, and 2006:

Operating Expenses - By Source as of June 30 (in thousands)			
	2008	2007	2006
Building costs	\$ 9,031	\$ 8,512	\$ 8,413
Direct and indirect instructional costs	28,925	27,651	27,037
Institutional administration	4,374	3,980	3,767
Public service	2,914	3,017	2,801
Total operating expenses - By source	<u>\$45,244</u>	<u>\$43,160</u>	<u>\$42,018</u>

Northwestern Michigan College

Management's Discussion and Analysis – Unaudited

For this financial report, the different funds of the College are netted and internal expenditures are eliminated. The following is a graphic illustration of operating expenses by source for the institution as a whole at June 30, 2008:



Statement of Cash Flows

Another way to assess the financial health of the College is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

Cash Flows for the Year Ended June 30 (in thousands)			
	2008	2007	2006
Cash Provided by (Used in)			
Operating activities	\$ (20,753)	\$ (19,812)	\$ (20,085)
Noncapital financing activities	23,145	21,104	20,899
Capital and related financing activities	(1,836)	(2,436)	(2,046)
Investing activities	(150)	2,090	(8,537)
Net Increase (Decrease) in Cash	406	946	(9,769)
Cash and cash equivalents - Beginning of year	2,966	2,020	11,789
Cash and cash equivalents - End of year	<u>\$ 3,372</u>	<u>\$ 2,966</u>	<u>\$ 2,020</u>

Northwestern Michigan College

Management's Discussion and Analysis – Unaudited

Statement of Cash Flows

Major sources of funds from operations came from tuition and fees, grants, contracts, and auxiliary activities, which include student housing, the Dennos Museum, University Center, Hagerty Center and the bookstore. These sources were offset by expenditures for operations such as payments to employees and suppliers. For fiscal year 2008 there was a slight increase in cash due to an increase in non-operating revenue over direct expenditures. During fiscal year 2007, the decrease in cash used for operating activities is the result of an increase in direct expenditures, grant expenses, and auxiliary enterprise.

The additional cash provided by non-operating noncapital financing activities resulted from an increase in local property tax values and State appropriations for fiscal year 2008 compared to 2007.

Cash used in capital and related financing for fiscal year 2008 decreased by \$600,000 due to a decrease in capital spending and principal debt payments. Cash used in capital and related financing for fiscal year 2007 decreased by \$233,000 due mainly to an increase in capital asset purchases, proceeds from the sale of capital assets, higher capital property tax values, and more capital state appropriations received compared to fiscal year 2006.

In 2008, the increase in investment activities is related to investment bonds being called early and reinvestment into long term securities. Investment income provided more cash for fiscal year 2007 compared to fiscal years 2008 and 2006 due to better market conditions.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the College had \$121 million invested in capital assets, net of accumulated depreciation of \$49 million. Depreciation charges totaled \$4.0 million for the current fiscal year. Details of these assets are shown below.

Capital Assets at June 30 (in thousands)			
	2008	2007	2006
Land and land improvements	\$ 9,071	\$ 8,837	\$ 8,744
Infrastructure	6,514	6,462	6,370
Buildings and improvements	82,522	82,147	80,304
Furniture, fixtures, and equipment	22,535	22,100	26,338
Construction in progress	250	31	147
Totals	\$ 120,892	\$ 119,577	\$ 121,903

Northwestern Michigan College

Management's Discussion and Analysis – Unaudited

Debt

The College had \$30.9 million, \$32.6 million, and \$34.5 million in debt outstanding at June 30, 2008, 2007, and 2006, respectively. The table below summarizes this amount by type of debt instrument. The College's bond rating for the 2005 Refunding Bond by Standard & Poor's and Moody's were A+ and A1, respectively at June 30, 2008.

Debt Outstanding at June 30 (in thousands)			
	2008	2007	2006
Bonds	\$ 30,465	\$ 31,980	\$ 33,310
Notes	460	641	811
Capital leases	-	-	389
Totals	\$ 30,925	\$ 32,621	\$ 34,510

Economic Factors That Will Affect the Future

The economic outlook for the College is tied heavily to national and state economic conditions. While the federal and state appropriations have been determined for the next fiscal year, historically, during times of financial constraints within the government, the funding received by the College can be impacted.

For fiscal year 2009, the College has budgeted for a 3.73% increase in state operating funding over fiscal year 2008's budget.

The college has reviewed its cash flow data and reserve funds. Northwestern Michigan College is financially positioned to continue normal operations during this period of uncertainty.

Northwestern Michigan College

Balance Sheet

	June 30	
	2008	2007
Assets		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 3,336,569	\$ 2,545,572
Short-term investments (Note 3)	771,835	2,489,515
Accounts receivable (Note 4)	3,526,662	2,895,115
Other current assets	<u>2,165,034</u>	<u>2,667,288</u>
Total current assets	9,800,100	10,597,490
Noncurrent Assets		
Cash restricted for capital improvements (Note 3)	36,092	420,833
Other long-term investments (Note 3)	7,339,814	4,990,960
Student loans receivable	10,768	50,339
Bond issuance costs	688,056	750,388
Capital assets - Net (Note 5)	<u>72,357,949</u>	<u>74,889,357</u>
Total noncurrent assets	<u>80,432,679</u>	<u>81,101,877</u>
Total assets	<u>\$ 90,232,779</u>	<u>\$ 91,699,367</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 962,578	\$ 1,049,003
Accrued liabilities:		
Payroll and withholdings	2,318,557	2,099,379
Interest	377,104	581,346
Deferred revenue	1,007,396	1,071,729
Long-term obligations - Current (Note 6)	<u>2,142,796</u>	<u>2,014,506</u>
Total current liabilities	6,808,431	6,815,963
Noncurrent Liabilities		
Long-term obligations - Net of current portion (Note 6)	29,652,221	31,402,734
Deposits	<u>464,881</u>	<u>415,680</u>
Total noncurrent liabilities	<u>30,117,102</u>	<u>31,818,414</u>
Total liabilities	36,925,533	38,634,377
Net Assets		
Invested in capital assets - Net of related debt	35,152,619	37,247,366
Restricted for:		
Expendable gifts	-	6,491
Debt service	6,355,869	4,948,469
Unrestricted (Note 1)	<u>11,798,758</u>	<u>10,862,664</u>
Total net assets	<u>53,307,246</u>	<u>53,064,990</u>
Total liabilities and net assets	<u>\$ 90,232,779</u>	<u>\$ 91,699,367</u>

Northwestern Michigan College

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2008	2007
Operating Revenue		
Tuition and fees	\$ 15,238,808	\$ 14,604,170
Scholarship allowance	(4,834,967)	(4,367,141)
Net tuition and fees	10,403,841	10,237,029
Federal grants and contracts	1,299,527	1,476,219
State grants and contracts	1,449,294	1,633,633
Private gifts, grants, and contracts	168,432	132,587
Sales and services of auxiliary activities	4,767,484	4,852,444
Other sources	1,842,103	2,674,334
Total operating revenue	19,930,681	21,006,246
Operating Expenses		
Instruction	13,352,266	12,758,152
Information technology	1,713,229	2,017,722
Public service	2,913,571	3,016,915
Instructional support	5,769,436	5,383,700
Student services	8,090,595	7,491,041
Institutional administration	4,373,618	3,980,101
Operations and maintenance of plant	5,026,321	4,602,320
Depreciation	4,005,300	3,909,599
Total operating expenses	45,244,336	43,159,550
Operating Loss	(25,313,655)	(22,153,304)
Nonoperating Revenue (Expenses)		
State appropriations	9,300,700	7,257,594
Federal Pell grant	3,685,995	2,974,073
Property taxes (Note 2)	11,750,503	11,153,864
Support from component unit	1,966,261	1,965,386
Investment income and other interest income	481,613	676,821
Bond costs	(49,004)	(49,004)
Interest on capital asset - Related debt	(1,589,026)	(1,652,181)
Net nonoperating revenue	25,547,042	22,326,553
Income Before Other Revenue	233,387	173,249
Other Revenue		
State capital appropriations	8,869	566,131
Capital support from component unit	-	111,568
Total other revenue	8,869	677,699
Increase in Net Assets	242,256	850,948
Net Assets		
Beginning of year	53,064,990	52,214,042
End of year	\$ 53,307,246	\$ 53,064,990

Northwestern Michigan College

Statement of Cash Flows - College

	Year Ended June 30	
	2008	2007
Cash Flows from Operating Activities		
Tuition and fees	\$ 10,308,059	\$ 9,721,029
Grants and contracts	2,941,143	3,919,236
Payments to suppliers	(23,681,672)	(24,006,575)
Payments to employees	(16,957,094)	(17,092,493)
Loans issued to students, net of repayments	39,571	(20,602)
Auxiliary enterprise charges	4,767,484	4,852,444
Other	1,829,343	2,814,744
Net cash used in operating activities	(20,753,166)	(19,812,217)
Cash Flows from Noncapital Financing Activities		
Local property taxes	8,860,932	8,203,450
Gifts and contributions for other than capital purposes	2,370,021	1,556,468
State appropriations	8,256,995	8,345,863
Pell Grant	3,657,040	2,998,660
Net cash provided by noncapital financing activities	23,144,988	21,104,441
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(1,365,877)	(2,995,064)
Proceeds from sale of capital assets	-	361,303
Principal paid on capital debt	(1,607,141)	(1,808,172)
Capital property tax levied	2,889,571	2,808,001
Capital state appropriations	8,869	566,131
Gifts and contributions	-	111,568
Interest paid on capital debt	(1,761,427)	(1,479,812)
Net cash used in capital and related financing activities	(1,836,005)	(2,436,045)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	14,750,000	2,480,875
Investment income	588,780	629,246
Purchase of investments	(15,488,341)	(1,019,765)
Net cash provided by (used in) investing activities	(149,561)	2,090,356
Net Increase in Cash and Cash Equivalents	406,256	946,535
Cash and Cash Equivalents - Beginning of year	2,966,405	2,019,870
Cash and Cash Equivalents - End of year	\$ 3,372,661	\$ 2,966,405
Statement of Net Asset Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 3,336,569	\$ 2,545,572
Noncurrent cash reserved for capital improvements	36,092	420,833
Total cash and cash equivalents	\$ 3,372,661	\$ 2,966,405

Northwestern Michigan College

Statement of Cash Flows - College (Continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

	Year Ended June 30	
	2008	2007
Operating loss	\$ (25,313,655)	\$ (22,153,304)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	4,005,300	3,909,599
Noncash revenue	(106,873)	(107,040)
(Gain) loss on disposal of fixed assets	(108,015)	(145,901)
(Increase) decrease in assets:		
Accounts receivable	37,353	825,152
Student loan receivable	39,571	(20,602)
Inventories, prepaids, and other assets	502,254	(1,821,518)
Increase (decrease) in liabilities:		
Accounts payable	(86,425)	(38,472)
Accrued payroll and withholdings	219,178	139,478
Deferred revenue	(15,132)	(445,067)
Accrued sick leave	73,278	45,458
Net cash used in operating activities	<u>\$ (20,753,166)</u>	<u>\$ (19,812,217)</u>

Northwestern Michigan College

Discretely Presented Component Unit - Foundation Balance Sheet and Statement of Activities and Changes in Net Assets

BALANCE SHEET

		June 30	
		2008	2007
Assets			
Cash and cash equivalents		\$ 3,810,746	\$ 2,270,224
Investments (Note 3)		23,221,712	25,033,762
Receivables		473,031	555,625
Other assets		229,651	805,940
Total assets		<u>\$ 27,735,140</u>	<u>\$ 28,665,551</u>
Liabilities and Net Assets			
Liabilities			
Accrued distributions to Northwestern Michigan College		\$ 236,449	\$ 625,957
Other liabilities		161,738	546,986
Total liabilities		398,187	1,172,943
Net Assets			
Unrestricted		3,865,922	3,972,442
Temporarily restricted		14,395,076	14,629,353
Permanently restricted		9,075,955	8,890,813
Total net assets		27,336,953	27,492,608
Total liabilities and net assets		<u>\$ 27,735,140</u>	<u>\$ 28,665,551</u>

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

		Year Ended June 30	
		2008	2007
Support and Revenue			
Contributions and grants		\$ 2,557,101	\$ 1,853,019
Investment (loss) income		(922,709)	3,297,190
Total support and revenue		1,634,392	5,150,209
Program and Support Expenses			
Program expenses		1,578,227	2,478,476
Management and general		132,646	72,676
Fund-raising - Special events		238,372	106,952
Total program and support expenses		1,949,245	2,658,104
Income Before Other Revenue		(314,853)	2,492,105
Other Revenue - Additions to permanent endowments		159,198	1,222,006
(Decrease) Increase in Net Assets		(155,655)	3,714,111
Net Assets - Beginning of year		27,492,608	23,778,497
Net Assets - End of year		<u>\$ 27,336,953</u>	<u>\$ 27,492,608</u>

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Basis of Presentation and Significant Accounting Policies

Basis of Presentation

Reporting Entity - Northwestern Michigan College (the "College") is a Michigan community college whose financial statements have been prepared in accordance with the generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and as outlined in the *State of Michigan Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on application of the criteria, the College has one component unit. A component unit is a separate legal entity that is included in the College's reporting entity because of the significance of its operational financial relationships with the College.

Northwestern Michigan College Foundation (the "Foundation") is discretely reported as part of the College reporting entity (although it is legally separate and governed by its own board of directors) because its sole purpose is to provide support for the College. Separate financial statements of the Foundation may be obtained by contacting Northwestern Michigan College Foundation, 1701 East Front Street, Traverse City, Michigan 49686.

Significant Accounting Policies

Significant accounting policies followed by Northwestern Michigan College are described below to enhance the usefulness of the financial statements to the reader:

Accrual Basis - The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

Cash and Cash Equivalents - Cash and cash equivalents consist of all highly liquid investments with an initial maturity of three months or less.

Investments - Investments are recorded at fair market value.

Prepaid Expense - During the year ended June 30, 2008 and 2007, the College has recorded a \$1,417,000 and \$1,557,000 prepaid expense in other current assets, respectively, for flight time on Cessna Skyhawk aircraft.

Bond Issuance Costs - The bond issuance costs are being amortized over the life of the bonds using the straight-line method.

Note I - Basis of Presentation and Significant Accounting Policies (Continued)

Property and Equipment - Property and equipment are recorded at cost or, if donated, the fair value at the time of donation. Library books are recorded using a historically based estimated value. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. No depreciation is recorded on land and the art collection. Expenditures for major renewals and betterments that extend the useful lives of the assets are capitalized. The following estimated useful lives are used to compute depreciation:

Buildings	40 years
Library books	5 years
Land improvements and infrastructure	20 years
Furniture, fixtures, and equipment	7-15 years
Docks	24 years

Internal Service Activities - Both revenue and expenses related to internal service activities including conference services, print shops, office equipment, maintenance, telecommunications, and institutional computing have been eliminated.

Operating Revenue and Expenses - Revenue and expense transactions are normally classified as operating revenue and expenses when such transactions are generated by the College's principal ongoing operations. However, most revenue that is considered to be nonexchange, such as tax revenue and state appropriations, is nonoperating revenue.

Deferred Revenue - Revenue received prior to year end that is related to the next fiscal period is recorded as deferred revenue. It consists of approximately \$155,000 and \$149,000 for the 2008 and 2007 fall semesters and \$666,000 and \$657,000 for the 2008 and 2007 summer semesters, respectively. Grants received prior to qualifying expenditures are also included in deferred revenue. Generally, the College first applies restricted resources when an expense is incurred for which both restricted and unrestricted resources are available.

Compensated Absences - Compensated absences represent the accumulated liability to be paid under the College's current sick and vacation pay policy. Under the College's policy, employees earn sick and vacation time based on time of service with the College.

Contributions and Pledges Receivable - Pledges are recorded as contributions in the year the pledge is received, if there is sufficient evidence that a promise to contribute cash or other assets in the future has been made and collection is reasonably assured. An allowance for uncollectible pledges is used to reduce pledges receivable for estimated uncollectible amounts.

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Basis of Presentation and Significant Accounting Policies (Continued)

Pell Grant Reimbursements - Pell grant reimbursements are classified as nonoperating revenues due to their nonexchange nature. The amounts received for 2008 and 2007 are \$3,685,995 and \$2,974,073, respectively.

Restricted Net Assets - Restricted net assets represent amounts over which third parties have imposed restrictions that cannot be changed by the board, including amounts that the board has agreed to set aside under contractual agreements with third parties.

Unrestricted Net Assets - The College, through board action, has designated the use of unrestricted net assets as follows:

	2008	2007
Designated for General Fund division use	\$ 4,304,724	\$ 3,994,968
Designated for maintenance and replacement	4,015,635	3,726,978
Designated for future expenditures	1,885,635	1,700,451
Designated for auxiliary expenditures	1,592,764	1,440,267
Total unrestricted net assets	<u>\$ 11,798,758</u>	<u>\$ 10,862,664</u>

Reclassification - Certain prior year amounts have been reclassified to conform to the presentation used in the current year.

Note 2 - Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied.

Property taxes are levied on July 1 and December 1 based on taxable values as of the preceding December 31. The taxes, which are collected and remitted to the College by townships and city within the College district boundaries, are collected through February 28. Uncollected real property taxes of the College are turned over to the county, in which the district is located, for subsequent collection. The College is subsequently paid 100 percent of delinquent real property taxes through the county's tax revolving funds. These payments are usually received within three to five months after the delinquency date.

During the years ended June 30, 2008 and 2007, 2.1700 and 2.1838 mills, respectively, of tax per \$1,000 of taxable property value in the community college taxing district was levied for general operating purposes on all property. Total operating property tax revenue was \$8,860,932 and \$8,345,863 for the years ended June 30, 2008 and 2007, respectively.

During both years ended June 30, 2008 and 2007, 0.70 and 0.73 mills, respectively, of tax per \$1,000 of taxable property value in the community college taxing district was levied for debt retirement purposes. Total property tax revenue was \$2,889,571 and \$2,808,001 for the years ended June 30, 2008 and 2007, respectively, for retirement of debt related to the 1999 and 2005 bond issues.

Note 3 - Deposits and Investments

Investments Held by Trustees

The Foundation has entered into trust agreements with Huntington Bank, JP Morgan Trust Department, Fifth Third Bank, National City, and Northwestern Bank, whereby the financial institutions provide trust investment and custodial services for funds of the Foundation transferred into trust accounts at the financial institutions. All investments are held by the Foundation's agent in the Foundation's name. Earnings on invested amounts are retained in the trust funds for reinvestment until such time as the Foundation authorizes delivery of all or a part of the trust funds to or for the benefit of the College.

Total trust investments at financial institutions are summarized as follows:

	2008	2007
Fixed income - Bonds	\$ 7,180,212	\$ 7,521,486
Equities - Stocks	16,041,500	17,512,276
Total	<u>\$ 23,221,712</u>	<u>\$25,033,762</u>

Subsequent to year-end, the fair value of the Foundation's investment portfolio declined by approximately \$300,000, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

Deposits and Investments

State statutes and the College's investment policy authorize the College to make deposits in the accounts of federally insured bank, credit unions, and savings and loan associations that have offices in Michigan; the College is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The College's deposits are in accordance with statutory authority.

The College has designated Fifth Third Bank and Northwestern Bank for the deposit of its funds.

The College's cash and investments are subject to custodial credit risk, which is examined in more detail below.

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the College's deposits may not be returned to it. The College's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial credit risk are used for the College's deposits. As of June 30, 2008, the College's deposit balances of \$3,348,083 had \$3,148,083 of bank deposits (money markets, certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. For June 30, 2007, the College's deposit balances of \$2,940,958 had \$2,740,958 of bank deposits that were uninsured and uncollateralized. The College believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the College evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The College's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the College will do business using the criteria established in the investment policy. All investment securities that are uninsured and unregistered are held by counterparties.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The College's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market. See the tables in the credit risk section for investment maturities.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The College's investment policy does not further limit its investment choices.

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Deposits and Investments (Continued)

At June 30, 2008, the maturities of investments which include debt securities (other than the U.S. government) held by counterparties that possess Moody's quality ratings of AAA, are as follows:

	Fair Market Value	Less Than One Year	1-5 Years	5-10 Years	More Than 10 Years
Certificates of Deposit	\$ 771,835	\$ 771,835	\$ -	\$ -	\$ -
Federal Home Loan Mortgage Corp. Mtn	1,006,450	-	1,006,450	-	-
Federal Home Loan Banks Call Step	984,330	-	-	984,330	-
Federal Home Loan Bank	453,094	-	453,094	-	-
Federal Home Loan Bank Bonds	983,440	-	983,440	-	-
Federal Home Loan Banks Cons Bond	1,985,620	-	1,985,620	-	-
Federal National Mortgage Association NTS	1,926,880	-	-	-	1,926,880
Total investments	<u>\$ 8,111,649</u>	<u>\$ 771,835</u>	<u>\$ 4,428,604</u>	<u>\$ 984,330</u>	<u>\$ 1,926,880</u>

At June 30, 2007, the maturities of investments which include debt securities (other than the U.S. government) held by counterparties that possess Moody's quality ratings of AAA, are as follows:

	Fair Market Value	Less Than One Year	1-5 Years	5-10 Years	More Than 10 Years
Federal Home Loan Mortgage Corp. Mtn	\$ 1,996,860	\$ 998,420	\$ 998,440	\$ -	\$ -
Federal Home Loan Banks Call Step	1,996,250	998,750	-	997,500	-
Federal Home Loan Bank	1,492,035	492,345	999,690	-	-
Federal Home Loan Mortgage Corp NTS	999,080	-	999,080	-	-
Federal National Mortgage Association NTS	996,250	-	996,250	-	-
Total investments	<u>\$ 7,480,475</u>	<u>\$ 2,489,515</u>	<u>\$ 3,993,460</u>	<u>\$ 997,500</u>	<u>\$ -</u>

Concentration of Credit Risk

The College's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of the potential losses from any one type of security or issuer will be minimized. More than 5 percent of the College's investments are comprised of Federal Home Loan and Federal National Mortgage Bonds; these investments account for 67 percent and 24 percent, respectively, of the College's total investments for June 30, 2008 and 87 percent and 13 percent, respectively, for June 30, 2007.

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 4 - Accounts Receivable

Accounts receivable consist of the following:

	2008	2007
Student	\$ 704,885	\$ 624,235
Grants and contracts	728,090	723,025
State appropriations - Operating	1,597,654	553,949
Foundation	194,323	598,083
Third party and other	716,453	790,347
Total	3,941,405	3,289,639
Less allowance for doubtful accounts	414,743	394,524
Net accounts receivable	<u>\$ 3,526,662</u>	<u>\$ 2,895,115</u>

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Depreciable assets:					
Land improvements	\$ 4,653,596	\$ 222,124		\$ 11,889	\$ 4,887,609
Infrastructure	6,462,029	52,132			6,514,161
Building and building improvements	82,146,927	353,974		21,267	82,522,168
Furniture, fixtures, and equipment	19,613,839	613,010	(184,684)		20,042,165
Dock	1,842,308	-	-	-	1,842,308
Total depreciable assets	114,718,699	1,241,240	(184,684)	33,156	115,808,411
Nondepreciable assets:					
Art collection	643,981	6,485	-	-	650,466
Land	4,183,042	-	-	-	4,183,042
Construction in progress	30,506	252,840	-	(33,156)	250,190
Total nondepreciable assets	4,857,529	259,325	-	(33,156)	5,083,698
Total depreciable and nondepreciable assets	119,576,228	\$ 1,500,565	\$ (184,684)	\$ -	120,892,109
Accumulated depreciation:					
Land improvements	3,010,633	212,081	-	-	3,222,714
Infrastructure	4,970,820	172,527	-	-	5,143,347
Building and building improvements	19,355,436	2,299,911	-	-	21,655,347
Furniture, fixtures, and equipment	16,803,209	1,189,718	(158,011)	-	17,834,916
Dock	546,773	131,063	-	-	677,836
Total accumulated depreciation	44,686,871	\$ 4,005,300	\$ (158,011)	\$ -	48,534,160
Net capital assets	\$ 74,889,357				\$ 72,357,949

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Depreciable assets:					
Land improvements	\$ 4,560,677	\$ 92,919	\$ -	\$ -	\$ 4,653,596
Infrastructure	6,370,400	91,629	-	-	6,462,029
Building and building improvements	80,303,456	1,682,290	-	161,181	82,146,927
Furniture, fixtures, and equipment	23,897,562	1,022,310	(5,306,033)	-	19,613,839
Dock	1,826,508	15,800	-	-	1,842,308
Total depreciable assets	116,958,603	2,904,948	(5,306,033)	161,181	114,718,699
Nondepreciable assets:					
Art collection	613,981	30,000	-	-	643,981
Land	4,183,042	-	-	-	4,183,042
Construction in progress	147,399	44,288	-	(161,181)	30,506
Total nondepreciable assets	4,944,422	74,288	-	(161,181)	4,857,529
Total depreciable and nondepreciable assets	121,903,025	\$ 2,979,236	\$ (5,306,033)	\$ -	119,576,228
Accumulated depreciation:					
Land improvements	2,792,033	\$ 218,600	\$ -	\$ -	3,010,633
Infrastructure	4,794,246	176,574	-	-	4,970,820
Building and building improvements	17,070,417	2,285,019	-	-	19,355,436
Furniture, fixtures, and equipment	20,771,809	1,137,859	(5,106,459)	-	16,803,209
Dock	455,226	91,547	-	-	546,773
Total accumulated depreciation	45,883,731	\$ 3,909,599	\$ (5,106,459)	\$ -	44,686,871
Net capital assets	\$ 76,019,294				\$ 74,889,357

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 6 - Long-term Obligations

Long-term obligation activity during the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
1999 Community College Improvement and Refunding Bonds	\$ 6,700,000	\$ -	\$ 1,365,000	\$ 5,335,000	\$ 1,540,000
2002 Community College Improvement Bonds	1,815,000	-	40,000	1,775,000	45,000
2002 Community College Energy Conservation Notes	320,000	-	60,000	260,000	60,000
2005 Community College Refunding Bonds	<u>23,145,000</u>	<u>-</u>	<u>50,000</u>	<u>23,095,000</u>	<u>50,000</u>
Total bonds payable	31,980,000	-	1,515,000	30,465,000	1,695,000
Notes Payable					
Flight simulator and copy machines	306,030	-	92,141	213,889	40,431
Council of Governments	<u>334,939</u>	<u>-</u>	<u>88,360</u>	<u>246,579</u>	<u>107,365</u>
Total notes payable	640,969	-	180,501	460,468	147,796
Other Long-term Obligations					
Accrued vacation and sick leave	<u>796,271</u>	<u>824,768</u>	<u>751,490</u>	<u>869,549</u>	<u>300,000</u>
Total long-term obligations	<u>\$ 33,417,240</u>	<u>\$ 824,768</u>	<u>\$ 2,446,991</u>	<u>\$ 31,795,017</u>	<u>\$ 2,142,796</u>

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 6 - Long-term Obligations (Continued)

Long-term obligation activity during the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable					
1999 Community College Improvement and Refunding Bonds	\$ 7,885,000	\$ -	\$ 1,185,000	\$ 6,700,000	\$ 1,365,000
2002 Community College Improvement Bonds	1,855,000	-	40,000	1,815,000	40,000
2002 Community College Energy Conservation Notes	375,000	-	55,000	320,000	60,000
2005 Community College Refunding Bonds	23,195,000	-	50,000	23,145,000	50,000
Total bonds payable	33,310,000	-	1,330,000	31,980,000	1,515,000
Notes Payable					
Flight simulator and copy machines	395,636	-	89,606	306,030	92,141
Council of Governments	415,111	-	80,172	334,939	107,365
Total notes payable	810,747	-	169,778	640,969	199,506
Leases Payable					
Capital lease payable for Cessna airplanes	380,888	-	380,888	-	-
Capital lease payable for equipment	7,678	-	7,678	-	-
Total leases payable	388,566	-	388,566	-	-
Other Long-term Obligations					
Accrued vacation and sick leave	750,813	563,616	518,158	796,271	300,000
Total long-term obligations	<u>\$ 35,260,126</u>	<u>\$ 563,616</u>	<u>\$ 2,406,502</u>	<u>\$ 33,417,240</u>	<u>\$ 2,014,506</u>

Note 6 - Long-term Obligations (Continued)

Bond principal and interest are payable from the proceeds of ad valorem taxes levied on all taxable properties in the College taxing district without limitation as to rate or amount.

Community College Refunding Bonds, 2005 - The College issued \$23,195,000 in General Obligation Refunding Bonds with an interest rate of 3 percent to 5 percent to advance refund \$23.1 million of outstanding 1999 Series Bonds with an interest rate of 4.5 percent to 5.75 percent, maturing in 2020. The net proceeds of \$25,145,801 (after payment of \$380,924 in underwriting fees, insurance, and other issuance costs, plus an additional \$750,000 in prior bond debt retirement funds, and \$1.6 million in original issue premiums) purchased securities that were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1999 Series Bonds. As a result, the College defeased \$23.1 million of the 1999 Series Bonds and the liability for those bonds has been removed from the balance sheet.

Community College Improvement and Refunding Bonds, 1999 - The College issued \$34,700,000 of 4.5 percent to 5.75 percent General Obligation - Unlimited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in varying amounts through 2020. Proceeds from this issuance have been used to demolish, construct, and equip a new classroom and community center on the Maritime Campus, construct and equip a new technology education building (M-TEC), various other construction, improvement, and equipment projects, and to advance refund the 1991 Community College Improvement and Refunding Bonds.

Community College Improvement Bonds, 2002 - The College issued \$2,000,000 of 4.625 percent to 5.15 percent General Obligation - Limited Tax Bonds. The bonds are insured, payable from tax revenue of the College, callable at a premium, and mature in varying amounts through 2022. Proceeds from this issuance are being used for improvements to existing College facilities.

Community College Energy Notes, 2002 - The College issued \$565,000 of 3.75 percent to 4.6 percent General Obligation - Limited Tax Notes as part of the above Community College Improvement Bonds, 2002. The notes are insured, callable at a premium, and mature in varying amounts through 2012. Proceeds from this issuance are being used for improvements to existing College facilities.

Note Payable, 2004 - During 2004, the College entered into a purchase agreement to buy a Level 6 Cessna 172 Flight Training Device for \$400,000, with an effective interest rate of 2.79 percent and monthly payments of \$11,494 through June 2013, and 30 Kyocera Mita copiers for \$250,000, with an effective interest of 2.79 percent and monthly payments of \$13,436 through June 2008.

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 6 - Long-term Obligations (Continued)

Council of Governments - During 1995, the Council of Governments constructed a building based upon the College's specifications on property owned by the College. Total financing on the project was \$1,100,000 with monthly payments of \$8,200 and a variable interest rate of 3.5 percent and 5.6 percent at June 30, 2008 and 2007, respectively. The note matures in October 2009.

Accrued Vacation and Sick Leave - The College provides vacation benefits to employees, as defined by each respective labor contract and administrative policy. The liability has been recorded based on the number of days available for each employee. Additionally, the College accrues unused sick days for those union employees who have met the conditions of the plan at year end.

Debt Maturity - Total principal and interest maturities on the debt and lease obligations as of June 30, 2008 are as follows:

	Debt Obligations		
	Principal	Interest	Total
2009	\$ 1,842,796	\$ 1,518,455	\$ 3,361,251
2010	2,055,785	1,429,533	3,485,318
2011	2,077,743	1,350,115	3,427,858
2012	2,233,948	1,263,692	3,497,640
2013	2,375,196	1,152,551	3,527,747
2014-2018	13,555,000	3,867,120	17,422,120
2019-2022	6,785,000	562,999	7,347,999
Total	<u>\$ 30,925,468</u>	<u>\$ 11,144,465</u>	<u>\$ 42,069,933</u>

For June 30, 2008 and 2007, interest expense was \$1,589,026 and \$1,652,181, respectively.

Defeased Debt - During fiscal year 2005, the College in substance defeased (extinguished) \$23,100,000 of principal related to the 1999 Community College Improvement and Refunding Bonds as part of the issuance of the Community College Improvement and Refunding Bonds Series 2005 discussed above.

Note 6 - Long-term Obligations (Continued)

Since the portion of the 1999 bonds refunded was in substance defeased (extinguished), neither the assets of the irrevocable trust nor the bonds are reflected in the College's balance sheet. Future principal and interest due on these bonds will be paid from the funds placed in the irrevocable trust and the interest earned on those funds. The College completed the advance refunding to reduce its total debt service payments over the next 15 years by \$1.6 million and to obtain an economic gain of \$1.2 million.

During fiscal year 2000, the College in substance defeased (extinguished) \$5,025,000 of principal related to the 1991 Community College Improvement and Refunding Bonds as part of the issuance of the Community College Improvement and Refunding Series 1999 discussed above.

Since the portion of the 1991 bonds refunded was in substance defeased (extinguished), neither the assets of the irrevocable trust nor the bonds are reflected in the College's balance sheet. Future principal and interest due on these bonds will be paid from the funds placed in the irrevocable trust and the interest earned on those funds.

Of the various bonds in substance defeased, the remaining outstanding balance is \$23,100,000 at June 30, 2008.

Note 7 - Line of Credit

The College entered into a line of credit on July 7, 2006 that provides for borrowing up to \$2,000,000. Interest is payable monthly at an adjustable rate equal to 1.25 percent less than the rate of interest per annum established by lender as its prime rate. The entire principal balance, together with all accrued and unpaid interest, is due and payable in full on July 5, 2008. There was no balance on the line of credit as of June 30, 2008.

Note 8 - Retirement Plans

Defined Benefit Plan

Plan Description - The College participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the College. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report is available on the web at <http://www.michigan.gov/orschools> or by writing to MPERS at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909-7671.

Note 8 - Retirement Plans (Continued)

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each college is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totaled 11.19 percent for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008 of the covered payroll to the plan. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The College's contributions to the MPSERS plan for the years ended June 30, 2008, 2007, and 2006 were \$1,405,270, \$1,405,596, and \$1,144,915, respectively.

Post Employment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS Board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008. The College's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2008, 2007, and 2006 were \$876,733, \$845,206, and \$802,033, respectively.

Defined Contribution Plan

Beginning January 1997, the College is providing a defined contribution retirement plan for qualified employees. Full-time faculty, administrators, and other exempt status employees can elect to participate with the Teachers' Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF).

The TIAA-CREF plan is a defined contribution retirement plan where benefits vest immediately. The College contributes a specified percentage of employee wages and has no liability beyond its own contribution. For the years ended June 30, 2008 and 2007, that contribution rate was determined to be 11.5 percent. This resulted in the College contributing \$496,988 and \$458,625 for the years ended June 30, 2008 and 2007, respectively, to the plan.

Note 9 - Risk Management

The College is exposed to various risks of loss related to property loss, torts, errors, omissions, employee injuries (workers' compensation), and medical benefits provided to employees. The College participates in risk management pools for claims relating to auto, property, workers' compensation, errors, omissions, and liability.

Risk Sharing Programs

The College participates in the Michigan Community College Risk Management Authority (MCCRMA) risk management pool for auto, property, and liability claims and in the SET-SEG risk management pool for workers' compensation claims, errors, and omissions coverage. Both programs operate as claims servicing pools for amounts up to member retention limits and operate as common risk-sharing management programs for losses in excess of member retention amounts. Although premiums are paid annually to the pools, which the pools use to pay claims up to the retention limits, the ultimate liability for those claims remains with the College.

Self Insurance

The College is self-insured for unemployment compensation and health benefits. The College estimates the liability for medical benefit claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Unemployment Compensation	Health Benefits
Estimated liability - July 1, 2006	\$ 24,175	\$ 218,997
Estimated claims incurred, including changes in estimates	15,773	2,946,960
Less - Claim payments	<u>18,286</u>	<u>2,952,325</u>
Estimated liability - June 30, 2007	21,662	213,632
Estimated claims incurred, including changes in estimates	11,958	3,583,707
Less - Claim payments	<u>18,108</u>	<u>3,567,339</u>
Estimated liability - June 30, 2008	<u>\$ 15,512</u>	<u>\$ 230,000</u>

Northwestern Michigan College

Notes to Financial Statements June 30, 2008 and 2007

Note 10 - Commitments and Contingencies

In the normal course of its activities, the College is a party to various legal actions. The College is of the opinion that the outcome of asserted and unasserted claims outstanding will not have a material effect on the financial statements.

Note 11 - Dennon Museum

Dennon Museum operates as an auxiliary function of the College. Revenue and expenses for Dennon Museum for the years ended June 30, 2008 and 2007 were as follows:

	2008	2007
Revenue		
Sales and services	\$ 432,508	\$ 467,885
Federal grants and contracts	10,000	-
State grants and contracts	15,600	23,309
Private gifts, grants, and contracts	317,393	378,263
Other sources	63,031	78,318
Total revenue	838,532	947,775
Expenses		
Public service	774,697	866,517
Operations and maintenance of plant	63,835	72,579
Total expenses	838,532	939,096
Change in net assets	-	8,679
Net Assets - Beginning of year	90,022	81,343
Net Assets - End of year	\$ 90,022	\$ 90,022

Additional Information

Report on Additional Information

To the Board of Trustees
Northwestern Michigan College

We have audited the basic financial statements of Northwestern Michigan College for the years ended June 30, 2008 and 2007. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Northwestern Michigan College. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 13, 2008

Northwestern Michigan College

Combining Balance Sheet June 30, 2008 (with comparative totals for June 30, 2007)

	Current Funds									Combined Total June 30, 2008	Combined Total June 30, 2007
	General Fund	Designated Fund	Auxiliary Fund	Restricted	Plant Fund	Loan Fund	Agency Fund	Combined	Eliminations		
Assets											
Current Assets											
Cash and cash equivalents	\$ 3,048,801	\$ -	\$ 6,400	\$ -	\$ 281,168	\$ -	\$ 200	\$ 3,336,569	\$ -	\$ 3,336,569	\$ 2,545,572
Short-term investments	771,835	-	-	-	-	-	-	771,835	-	771,835	2,489,515
Accounts receivable	2,564,417	-	339,635	599,918	2,494	-	20,198	3,526,662	-	3,526,662	2,895,115
Other current assets	1,702,339	-	458,580	4,115	-	-	-	2,165,034	-	2,165,034	2,667,288
Total current assets	8,087,392	-	804,615	604,033	283,662	-	20,398	9,800,100	-	9,800,100	10,597,490
Noncurrent Assets											
Cash restricted for capital improvements	-	-	-	-	36,092	-	-	36,092	-	36,092	420,833
Other long-term investments	(211,219)	1,972,831	1,037,665	(404,175)	3,810,256	(29,080)	1,163,536	7,339,814	-	7,339,814	4,990,960
Student loans receivable	-	-	-	-	-	10,768	-	10,768	-	10,768	50,339
Bond issuance costs	-	-	-	-	688,056	-	-	688,056	-	688,056	750,388
Capital assets - Net	-	-	-	-	72,357,949	-	-	72,357,949	-	72,357,949	74,889,357
Total noncurrent assets	(211,219)	1,972,831	1,037,665	(404,175)	76,892,353	(18,312)	1,163,536	80,432,679	-	80,432,679	81,101,877
Total assets	\$ 7,876,173	\$ 1,972,831	\$ 1,842,280	\$ 199,858	\$ 77,176,015	\$ (18,312)	\$ 1,183,934	\$ 90,232,779	\$ -	\$ 90,232,779	\$ 91,699,367
Liabilities and Net Assets											
Current Liabilities											
Accounts payable	\$ 478,171	\$ 68,884	\$ 112,551	\$ 200,071	\$ 99,320	\$ -	\$ 3,581	\$ 962,578	\$ -	\$ 962,578	\$ 1,049,003
Accrued liabilities:											
Payroll and related liabilities	1,324,389	-	-	(213)	-	-	994,381	2,318,557	-	2,318,557	2,099,379
Interest payable	-	-	-	-	377,104	-	-	377,104	-	377,104	581,346
Deferred revenue	821,424	-	-	-	-	-	185,972	1,007,396	-	1,007,396	1,071,729
Bonds and leases payable - Current	-	-	-	-	1,842,796	-	-	1,842,796	-	1,842,796	1,714,506
Accrued vacation and sick leave - Current	300,000	-	-	-	-	-	-	300,000	-	300,000	300,000
Total current liabilities	2,923,984	68,884	112,551	199,858	2,319,220	-	1,183,934	6,808,431	-	6,808,431	6,815,963
Noncurrent Liabilities											
Bonds and leases payable - Net of current portion	-	-	-	-	29,082,672	-	-	29,082,672	-	29,082,672	30,906,463
Accrued vacation and sick leave	569,549	-	-	-	-	-	-	569,549	-	569,549	496,271
Deposits	77,916	-	136,965	-	250,000	-	-	464,881	-	464,881	415,680
Total noncurrent liabilities	647,465	-	136,965	-	29,332,672	-	-	30,117,102	-	30,117,102	31,818,414
Total liabilities	3,571,449	68,884	249,516	199,858	31,651,892	-	1,183,934	36,925,533	-	36,925,533	38,634,377
Net Assets											
Invested in capital assets - Net of related debt	-	-	-	-	35,152,619	-	-	35,152,619	-	35,152,619	37,247,366
Restricted for:											
Expendable gifts	-	-	-	-	-	-	-	-	-	-	6,491
Debt service	-	-	-	-	6,355,869	-	-	6,355,869	-	6,355,869	4,948,469
Unrestricted	4,304,724	1,903,947	1,592,764	-	4,015,635	(18,312)	-	11,798,758	-	11,798,758	10,862,664
Total net assets	4,304,724	1,903,947	1,592,764	-	45,524,123	(18,312)	-	53,307,246	-	53,307,246	53,064,990
Total liabilities and net assets	\$ 7,876,173	\$ 1,972,831	\$ 1,842,280	\$ 199,858	\$ 77,176,015	\$ (18,312)	\$ 1,183,934	\$ 90,232,779	\$ -	\$ 90,232,779	\$ 91,699,367

Northwestern Michigan College

Combining Statement of Revenue, Expenses and Changes in Net Assets June 30, 2008 (with comparative totals for June 30, 2007)

	Current Funds								Combined Total	Combined Total
	General Fund	Designated Fund	Auxiliary Fund	Restricted Fund	Plant Fund	Loan Fund	Combined	Eliminations	Year Ended June 30, 2008	Year Ended June 30, 2007
Operating Revenue										
Expended for plant facilities	\$ -	\$ -	\$ -	\$ -	\$ 1,256,501	\$ -	\$ 1,256,501	\$ (1,256,501)	\$ -	\$ -
Tuition and fees	15,175,794	-	111	62,903	-	-	15,238,808	(4,834,967)	10,403,841	10,237,029
Federal grants and contracts	360,310	-	10,000	929,217	-	-	1,299,527	-	1,299,527	1,476,219
State grants and contracts	-	-	15,600	1,433,694	-	-	1,449,294	-	1,449,294	1,633,633
Private gifts, grants, and contracts	18,898	-	4,866	144,668	-	-	168,432	-	168,432	132,587
Sales and services of auxiliary activities	-	-	4,767,484	-	-	-	4,767,484	-	4,767,484	4,852,444
Other sources	405,128	-	1,262,355	58,642	115,978	-	1,842,103	-	1,842,103	2,674,334
Total operating revenue	15,960,130	-	6,060,416	2,629,124	1,372,479	-	26,022,149	(6,091,468)	19,930,681	21,006,246
Operating Expenses										
Instruction	13,226,934	-	-	173,345	174,203	-	13,574,482	(222,216)	13,352,266	12,758,152
Information technology	1,678,053	-	-	66,843	-	-	1,744,896	(31,667)	1,713,229	2,017,722
Public service	303,559	4,474	2,201,257	436,493	-	-	2,945,783	(32,212)	2,913,571	3,016,915
Instructional support	5,390,611	5,904	72,565	358,401	-	-	5,827,481	(58,045)	5,769,436	5,383,700
Student services	3,085,941	19,577	3,480,619	6,395,377	16,399	-	12,997,913	(4,907,318)	8,090,595	7,491,041
Institutional administration	4,122,239	227,358	4,512	161,889	14,305	24,803	4,555,106	(181,488)	4,373,618	3,980,101
Operations and maintenance of plant	4,797,302	6,340	188,724	79,532	612,945	-	5,684,843	(658,522)	5,026,321	4,602,320
Depreciation	-	-	-	-	4,005,300	-	4,005,300	-	4,005,300	3,909,599
Total operating expenses	32,604,639	263,653	5,947,677	7,671,880	4,823,152	24,803	51,335,804	(6,091,468)	45,244,336	43,159,550
Operating Loss	(16,644,509)	(263,653)	112,739	(5,042,756)	(3,450,673)	(24,803)	(25,313,655)	-	(25,313,655)	(22,153,304)
Nonoperating Revenue (Expenses)										
State appropriations	9,300,700	-	-	-	-	-	9,300,700	-	9,300,700	7,257,594
Federal Pell Grant	-	-	-	3,685,995	-	-	3,685,995	-	3,685,995	2,974,073
Property taxes	8,860,932	-	-	-	2,889,571	-	11,750,503	-	11,750,503	11,153,864
Support from component unit	231,401	-	388,475	1,346,385	-	-	1,966,261	-	1,966,261	1,965,386
Investment income and other - Interest	437,763	-	-	-	43,850	-	481,613	-	481,613	676,821
Bond costs	-	-	-	-	(49,004)	-	(49,004)	-	(49,004)	(49,004)
Interest on capital asset - Related debt	(7,579)	-	(102,640)	-	(1,478,807)	-	(1,589,026)	-	(1,589,026)	(1,652,181)
Net nonoperating revenue	18,823,217	-	285,835	5,032,380	1,405,610	-	21,861,047	-	25,547,042	22,326,553
Income (Loss) Before Other Revenue	2,178,708	(263,653)	398,574	(10,376)	(2,045,063)	(24,803)	(3,452,608)	-	233,387	173,249
Other Revenue										
State capital appropriations	-	-	-	-	8,869	-	8,869	-	8,869	566,131
Capital support from component unit	-	-	-	-	-	-	-	-	-	111,568
Total other revenue	-	-	-	-	8,869	-	8,869	-	8,869	677,699
Increase (Decrease) in Net Assets - Before transfers	2,178,708	(263,653)	398,574	(10,376)	(2,036,194)	(24,803)	(3,443,739)	-	242,256	850,948
Transfers In (Out)	(1,868,952)	467,149	(246,077)	10,376	1,637,504	-	-	-	-	-
Increase (Decrease) in Net Assets	309,756	203,496	152,497	-	(398,690)	(24,803)	(3,443,739)	-	242,256	850,948
Net Assets - Beginning of year	3,994,968	1,700,451	1,440,267	-	45,922,813	6,491	53,064,990	-	53,064,990	52,214,042
Net Assets - End of year	\$ 4,304,724	\$ 1,903,947	\$ 1,592,764	\$ -	\$ 45,524,123	\$ (18,312)	\$ 49,621,251	\$ -	\$ 53,307,246	\$ 53,064,990

Northwestern Michigan College

**Federal Awards
Supplemental Information
June 30, 2008**

Northwestern Michigan College

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Independent Auditor's Report

To the Board of Trustees
Northwestern Michigan College

We have audited the basic financial statements of Northwestern Michigan College for the year ended June 30, 2008 and have issued our report thereon dated October 13, 2008. Those basic financial statements are the responsibility of the management of Northwestern Michigan College. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Northwestern Michigan College taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 13, 2008

Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board of Trustees
Northwestern Michigan College

We have audited the financial statements of Northwestern Michigan College as of and for the year ended June 30, 2008 and have issued our report thereon dated October 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwestern Michigan College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northwestern Michigan College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northwestern Michigan College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-I to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Trustees
Northwestern Michigan College

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwestern Michigan College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northwestern Michigan College's response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 13, 2008

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
Northwestern Michigan College

Compliance

We have audited the compliance of Northwestern Michigan College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of Northwestern Michigan College are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northwestern Michigan College's management. Our responsibility is to express an opinion on Northwestern Michigan College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northwestern Michigan College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northwestern Michigan College's compliance with those requirements.

In our opinion, Northwestern Michigan College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Board of Trustees
Northwestern Michigan College

Internal Control Over Compliance

The management of Northwestern Michigan College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northwestern Michigan College's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, federal awarding agencies, and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 24, 2008

Northwestern Michigan College

Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity/Grant Number	Award Amount	Federal Expenditures
Clusters:				
Student Financial Assistance Cluster -				
U.S. Department of Education - Direct Program:				
Federal Supplemental Employment				
Opportunity Grant (2007-2008) (Note 3)	84.007	P007A072057	\$ 101,759	\$ 129,898
Federal Work-Study Program (2007-2008) (Note 3)	84.033	P033A072057	131,778	93,188
Federal Pell Grant Program (2007-2008)	84.063	P063P071647	3,683,213	3,683,213
Federal Pell Grant Program (2006-2007)	84.063	P063P061647	2,980,908	2,782
Federal Academic Competitiveness (2007-2008)	84.375	P375A071647	64,346	64,346
Federal Family Education Loan Program:				
Stafford subsidized (2007-2008)	84.032	N/A	N/A	5,233,294
Stafford subsidized (2006-2007)	84.032	N/A	N/A	73,846
Stafford unsubsidized (2007-2008)	84.032	N/A	N/A	3,117,839
Stafford unsubsidized (2006-2007)	84.032	N/A	N/A	58,566
PLUS loans (2007-2008)	84.032	N/A	N/A	166,253
Total Federal Family Education Loans				8,649,798
Total Student Financial Assistance Cluster				12,623,225
TRIO Cluster - U.S. Department of Education - Direct				
Program - TRIO-Upward Bound Program:				
2007-2008	84.047A	P047A040146	342,749	262,351
2006-2007	84.047A	P047A040146	332,766	79,410
Total TRIO Cluster				341,761
Total Clusters				12,964,986
Other federal awards:				
U.S. Department of Education:				
Vocational Education - Basic Grants to States				
passed through the Michigan Department of				
Career Development:				
Regional Allocation - (2007-2008)	84.048A	8021-22	265,688	265,688
Local Administration - (2007-2008)	84.048A	8025-22	18,400	18,400

Northwestern Michigan College

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity/Grant Number	Award Amount	Federal Expenditures
Other federal awards (Continued):				
U.S. Department of Education (Continued):				
Vocational Education - Basic Grants to States passed through the Michigan Department of Career Development (Continued):				
Professional Development	84.048	8029-22	\$ 3,052	<u>\$ 3,048</u>
Total Vocational Education - Basic Grants to States				287,136
Tech-Prep Education - Basic Grants to States passed through the Intermediate School District -				
Tech Prep - (2006-2007)	84.243A	7014-07	21,462	<u>21,462</u>
Total U.S. Department of Education				308,598
U.S. Department of Transportation - Direct:				
Maritime Administration	20.806	N/A	336,400	336,400
Maritime Administration	20.806	N/A	10,000	<u>3,757</u>
Total U.S. Department of Transportation - Direct				340,157
National Endowment for the Arts - Federal Direct -				
Challenge America - Reaching Every Community	45.024	08-7800-7055	10,000	9,241
National Science Foundation - Passed through the Michigan Department of Labor and Economic Growth:				
Listening to the Rivers	47.076	ESI-0540187	103,273	1,547
National Sea Grant Legal Tools	11.417	NA060AR4170078	51,850	<u>14,119</u>
Total National Science Foundation				<u>15,666</u>
Total other federal awards				<u>673,662</u>
Total federal awards				<u>\$ 13,638,648</u>

Northwestern Michigan College

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northwestern Michigan College (the "College") and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Grant Section Auditor's Report

Management has utilized Form R-7120 and the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Note 3 - Adjustments and Transfers

As allowable with federal regulations issued by the U.S. Department of Education, Northwestern Michigan College transferred \$28,139 from the Federal Work-Study Program (84.033) to the Federal Supplemental Education Opportunity Grant Program (84.007) for the year ended June 30, 2008.

Northwestern Michigan College

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program:

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.032, 84.033, 84.063, and 84.375	Student Financial Assistance Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Northwestern Michigan College

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings

Reference Number	Findings
2008-I	<p>Finding Type - Significant deficiency - Information technology</p> <p>Criteria - In the absence of controls over user access to system modules, such activity should be monitored. IT administrative access and programming capabilities should be segregated from financial application capabilities.</p> <p>Condition - Controls over user access to various modules do not exist and are not monitored by the College. In some instances, IT administrative access and programming capabilities are not segregated from financial capabilities at the College.</p> <p>Context - There are no formal controls in existence relating to user access set up upon employment. In addition, there is no formal process in place for department supervisors to periodically review user access levels for their employees. Individuals within the College have IT administrative access, application programming capabilities, and can post transactions in the financial systems.</p> <p>Cause - The College did not have formal procedures in place to monitor user access. The College did not have formal procedures in place to segregate IT and financial capabilities.</p> <p>Effect - The College is open to the risk of unauthorized activity going undetected within the system.</p> <p>Recommendation - We recommend department supervisors perform an annual review of their employees' user access levels. Exceptions, if any, should be communicated to the College's IT department to be corrected. In addition, results of such reviews, including related exceptions, should be maintained by the IT department.</p> <p>We recommend restricting access to post transactions in the financial systems of users who have IT administrative access and application programming capabilities. This allows for proper segregation of duties and ensures that user access and accountability controls are not compromised. If it is necessary (due to lack of staff) to allow a user with both levels of access, the activities transactional access should be logged and independently reviewed.</p>

Northwestern Michigan College

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2008-I (Cont'd)	<p>Views of Responsible Officials and Planned Corrective Actions - We do have varying levels of authorized access for different parts of the finance system and can generate a document detailing who has access to a particular module. We will establish a process, by January 2009, which will have the access privileges for each module reviewed by the appropriate supervisor. The information technology services department will maintain the results of the reviews.</p> <p>Given the size of our staff, the varying levels of knowledge among our functional users, and the complexity of the system, it is necessary that we allow users with administrative access and application programmers the ability to post transactions. We are aware of this control exception and use our hiring process to minimize the associated risk (i.e.; background checks, reference calls, thorough interviews, etc.). Also, pursuant to this finding, we have written a report to show all transactions posted by programmers. The report (FZRJEAU) will be run quarterly and reviewed by the assistant controller with the controller, whose signature will indicate final approval. (Note: This report was generated for fiscal year 2007/2008 and only three transactions were posted by programmers; all three postings were done by the same programmer. The three transactions involved software issues. In the course of resolving the software problems, the programmer posted the transactions. These transactions were reviewed by the vice president of administration and finance and the assistant controller. We believe the new report, which allows us to monitor transactions, coupled with our hiring process, significantly reduces risk exposure.)</p>

Section III - Federal Program Audit Findings

None



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**Northwestern
Michigan
College**

**Corrective Action Plan
Year Ended June 30, 2008**

Reference Number	Contact Person	Corrective Action Planned	Anticipated Completion Date
2008-1	Cheryl Sullivan	<p>We do have varying levels of authorized access for different parts of the finance system and can generate a document detailing who has access to a particular module. We will establish a process which will have the access privileges for each module reviewed by the appropriate supervisor. The Information Technology Services department will maintain the results of the reviews.</p> <p>Given the size of our staff, the varying levels of knowledge among our functional users, and the complexity of the system, it is necessary that we allow users with administrative access and application programmers the ability to post transactions. We are aware of this control exception and use our hiring process to minimize the associated risk (i.e.;</p>	January, 2009

Find it here.

**Corrective Action Plan
Year Ended June 30, 2008**

		<p>background checks, reference calls, thorough interviews, etc.). Also, pursuant to this finding, we have written a report to show all transaction posted by programmers. The report (FZRJEAU) will be run quarterly and reviewed by the Assistant Controller with the Controller, whose signature will indicate final approver. (Note: This report was generated for fiscal year 2007/08 and only three transactions were posted by programmers; all three postings were done by the same programmer. The three transactions involved software issues. In the course of resolving the software problems the programmer posted the transactions. These transactions were reviewed by the Vice President of Administration and Finance and the Assistant Controller. We believe the new report, which allows us to monitor transactions, coupled with our hiring process significantly reduces risk exposure.)</p>	
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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of Northwestern Michigan College as of and for the year ended June 30, 2008 and have issued our report thereon dated October 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northwestern Michigan College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northwestern Michigan College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northwestern Michigan College's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls.

We consider the following deficiencies to be significant deficiencies in internal control:

Information Technology - User Access Review

During our review of your information technology system, it was noted that there is no formal process in place for department supervisors to periodically review user access levels for their employees. In addition, no formal controls exist relating to user access set up upon employment. We recommend department supervisors perform an annual review of their employees user access levels. Exceptions, if any, should be communicated to the College's IT department to be corrected. In addition, results of such reviews, including related exceptions, should be maintained by the IT department.

Management Response - We do have varying levels of authorized access for different parts of the finance system and can generate a document detailing who has access to a particular module. We will establish a process, by January 2009, which will have the access privileges for each module reviewed by the appropriate supervisor. The Information Technology Services department will maintain the results of the reviews.

Information Technology - Segregation of Duties

Individuals within IT having administrative access (i.e. access to administer access, upload new versions, etc.) and application programming should not have access to post transactions in the financial systems. This allows for proper segregation of duties and ensures that user access and accountability controls are not comprised. This allows for proper segregation of duties and ensures that application controls are not comprised. If it is necessary (due to lack of staff) to allow a user with both levels of access, the activities transactional access should be logged and independently reviewed.

Management Response - Given the size of our staff, the varying levels of knowledge among our functional users, and the complexity of the system, it is necessary that we allow users with administrative access and application programmers the ability to post transactions. We are aware of this control exception and use our hiring process to minimize the associated risk (i.e.; background checks, reference calls, thorough interviews, etc.). Also, pursuant to this finding, we have written a report to show all transaction posted by programmers. The report (FZRJEAU) will be run quarterly and reviewed by the Assistant Controller with the Controller, whose signature will indicate final approver. (Note: This report was generated for fiscal year 2007/08 and only three transactions were posted by programmers; all three postings were done by the same programmer. The three transactions involved software issues. In the course of resolving the software problems the programmer posted the transactions. These transactions were reviewed by the Vice President of Administration and Finance and the Assistant Controller. We believe the new report, which allows us to monitor transactions, coupled with our hiring process significantly reduces risk exposure.)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwestern Michigan College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northwestern Michigan College's response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described above has not been subjected to the

auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Trustees and the federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.